

FERC Technical Conference
Open Season Regulations for Alaska Gas Pipeline Capacity
December 3, 2004
Ken Konrad Testimony

Good afternoon, Chairman Wood, Commissioners. My name is Ken Konrad, and I am BP's Sr. Vice President for Alaska Gas.

Thank you for the opportunity to speak today as part of this FERC Technical Conference.

This conference sets the stage for development of important regulations required as a result of federal legislation that was passed in October of this year. These regulations are particularly significant because they will govern the conduct of open seasons for the largest private sector energy project in North American history – an Alaska gas pipeline.

Construction of this project would connect Alaska's vast gas resource to U.S. and Canadian consumers increasingly in need of diverse and secure sources of clean burning natural gas. It would provide billions of dollars in government revenues, and will promote future exploration for more North Slope natural gas – the currently envisioned project will depend on future exploration success for nearly one-third of its projected throughput in its first 30 years of operation alone, even before considering possible expansions.

An Alaska gas pipeline project is a massive undertaking. Starting on the North Slope, approximately 4.5 bcfd of gas would be treated, compressed and chilled in the GTP for entry into the main pipeline for shipment through Alaska and into Alberta, Canada. From Alberta, gas would move to major North American markets via some combination of new build pipe, excess capacity and/or expansion of existing systems. Total cost has previously been estimated at approximately 20 billion 2001 dollars – allowing for cost inflation, actual installed cost will clearly be higher.

My comments today will be focused on the Alaska portion of the project – the GTP and the Alaska mainline to the Alaskan-Canadian border. While these Alaska project elements are the subject today, we hope and fully expect the FERC and the Canadian NEB will work collaboratively to ensure all project elements are viewed and regulated in a flexible but integrated manner.

The right regulations can help a project become a reality, but the wrong regulations could eliminate prospects for a commercially viable project.

BP believes that the Commission's proposed regulations are balanced and generally on target. Implementation of the proposed rule would meet the requirements of the Open Season provision of the Alaska Natural Gas Pipeline Act.

I would like to share with the Commission several points that are important to my company, as one of the North Slope gas owners and project sponsors.

- BP fully supports non-discriminatory Open Access, and welcomes the Alaska/U.S. elements of the project being regulated as such by the FERC. Any prospective shipper – whether producer, explorer, LDC, electric utility, gas marketer, the State of Alaska or any other creditworthy party – should have the ability to contract for capacity on a non-discriminatory basis. There should be no preferential treatment for any category of shipper.
- BP fully supports development of open season regulations and would urge the Commission to develop robust guidelines but very carefully balance the need to be prescriptive with the need to provide flexibility.
- Pipeline owners must have sufficient flexibility to facilitate capacity allocation in a manner that improves prospects for successful development of a project. This is common practice for U.S. pipeline projects.
- Flexibility is also needed in the regulations in order to provide project sponsors the ability to assure that the pipeline is properly sized and can operate at a high load factor from as close as possible after its in service date. While important for all pipelines, this is critical for an Alaskan project.
- The Regulations should not require pre-approval of the open season notice and documents: A pre-approval process will introduce an unnecessary layer of process which could create delay and

inefficiency that would be harmful to a project. FERC oversight should not begin until an Open Season is announced, as is proposed in the draft regulations.

- Regarding Alaska market studies: The best indicator of Alaskan market needs is the Open Season itself. Alaskan utilities and the Alaska Natural Gas Development Authority (ANGDA) are working hard on this topic already and we expect they and others may participate in the Open Season, consistent with market need. Additionally, the sponsors are already working with the State on potential locations for tie-ins to the main pipeline for local demand. More Alaskan customers would be good news for the project. No one wants to sell gas 3500 miles away if local markets are available.
- We also urge the Commission not to burden the current rulemaking process with consideration of mandatory expansions. The Commission is not required to act on this within the 120-day period, and there is not a need to address this topic at this time. The inclusion of mandates on rate treatment of expansions, whether voluntary or mandatory, would unnecessarily complicate the rulemaking. The issue of whether an expansion should be priced on a rolled-in or incremental basis should be determined at the time of the expansion based on the specific facts in existence and the Commission's policy at the time of such expansion. To address this topic at this time would be premature.

- BP seeks confirmation of its interpretation of section 157.34 (6) as it is currently written. BP interprets this section as not precluding a pipeline from establishing rates reflecting the volume of pipeline capacity reserved, while stating the rates on an MMBtu basis. For a dense phase pipeline like the Alaska pipeline, the heavier components are retained for shipment to gas processing facilities located downstream of the receipt points. It is important that shippers pay for the amount of pipeline space that they actually use and that shippers using physical capacity pay for that physical capacity. FERC has previously recognized this important principle in setting rates for the dense phase Alliance Pipeline.
- A potentially problematic issue is section 157.34 (17) because it would require providing “all other information that may be relevant”. We are concerned with the sweeping nature of this language and that the term “relevant” is undefined, and could be interpreted to include a wide variety of proprietary, confidential and costly information that is typically not divulged in an open season process. Additionally, existing FERC Affiliate Rules are very stringent and, just like these proposed Open Season regulations, would apply to the pipeline regardless of Sponsor type.
- BP expects that the GTP will be regulated by the Commission and that the Commission’s established policy regarding unbundling of services would apply. Therefore, the Open Season regulations do not need to address these issues.

- BP believes that the “Anchor Shipper” concept is an important one because it will provide confidence that the project sponsors can incur the very significant front end costs needed to support an Open Season. Any credit-worthy party can become an anchor shipper and Project Sponsors will actively pursue those willing to commit to be an anchor shipper because it helps a project. In addition to the anchor shipper space, a substantial amount of capacity would still be available for the required open season.

So in conclusion,

- We are supportive of the draft regulations and believe they meet the requirements of the Alaska Natural Gas Pipeline Act
- We fully support non-discriminatory Open Access and believe there should be no preferential treatment for any category of shipper.
- The Commission should make clear the intent of section 157.34 (6) is consistent with the reality of a dense phase pipeline and should review section 157.34 (17) to ensure only necessary information is targeted.

This concludes my comments today. We will be submitting more detailed written comments to the commission on or before December 17th.

Thank you again for the opportunity to speak. I will be happy to answer questions at this time.